

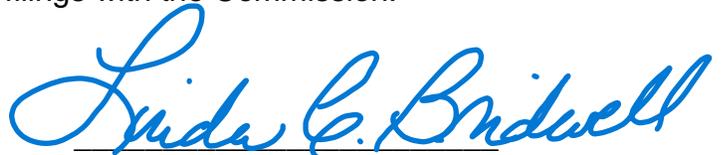
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CHRISTIAN	)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE	)	2021-00369
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of November 17, 2021, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's November 17, 2021 Order, Christian County Water District (Christian District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Christian District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED JAN 26 2022

cc: Parties of Record

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

STAFF REPORT  
ON  
CHRISTIAN COUNTY WATER DISTRICT  
CASE NO. 2021-00369

Christian County Water District (Christian District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 5,871 residential, commercial, and industrial customers in Christian County, Kentucky.<sup>1</sup> In the final Order for Case No. 2020-00239,<sup>2</sup> Christian District was ordered to file an application by September 30, 2021, for either a traditional adjustment in rates or for an alternative rate adjustment to ensure its revenue is sufficient to support adequate and reliable service. On September 18, 2021, Christian District tendered its application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated October 6, 2021. On November 3, 2021, Christian District submitted its motion requesting an extension of time until December 3, 2021 to fully respond to Commission Staff's First Request for Information (Staff's First Request). By its Order dated November 17, 2021, the Commission granted Christian District's motion and amended the procedural schedule to extend the remaining deadlines.

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<sup>1</sup> *Annual Report of Christian County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

<sup>2</sup> See Case No. 2020-00239, *Electronic Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$1,634,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:00* (Ky. PSC Sep. 30, 2020).

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15.00 percent for ratemaking purposes. The Commission Staff notes that Christian District reported a water loss of 15.75 percent in its 2020 Annual Report.<sup>3</sup> At a 15.75 percent water loss, the annual cost of water loss in excess of 15.00 percent is \$9,784 and the total annual cost of water loss to Christian District is \$205,471.<sup>4</sup>

To comply with the requirements of 807 KAR 5:076, Section 9, Christian District based its requested rates on a historic test period that coincides with the reporting period shown in its most recent Annual Report on file with the Commission: the calendar year ended December 31, 2020.<sup>5</sup>

Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Christian District determined in its application that it could justify a revenue increase of \$200,768, or 5.37 percent.<sup>6</sup> The rates requested by Christian District would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$2.46, from \$45.81 to \$48.27, or approximately 5.37 percent.<sup>7</sup>

<sup>3</sup> 2020 Annual Report at 57 and 58.

4

	Purchased Water	Purchased Power	Chemicals	Total
Allowable Purchases	\$ 1,219,214	\$ 84,400	\$ 962	\$ 1,304,576
Multiplied by: Water Rate per 1,000 Gallons	-0.75%	-0.75%	-0.75%	-0.75%
Pro Forma Purchased Water Expense	\$ (9,144)	\$ (633)	\$ (7)	\$ (9,784)

	Electricity	Purchased Power	Chemicals	Total
Allowable Purchases	\$ 1,219,214	\$ 84,400	\$ 962	\$ 1,304,576
Multiplied by: Water Rate per 1,000 Gallons	-15.75%	-15.75%	-15.75%	-15.75%
Pro Forma Purchased Water Expense	\$ (192,026)	\$ (13,293)	\$ (152)	\$ (205,471)

<sup>5</sup> Application at 3.

<sup>6</sup> *Id.*, Attachment 4, Revenue Requirements.

<sup>7</sup> *Id.*, Attachment 1, Customer Notice.

On September 22, 2021, the Commission issued its Order in Case No. 2021-00322,<sup>8</sup> authorizing Christian District to enter into a loan with the Kentucky Rural Finance Corporation (KRWFC) to refinance an existing KRWFC loan, Series 2012C. The Application in this instant case was submitted on September 18, 2021, approximately four days prior to the issuance of the Order in Case No. 2021-00322. In its December 17, 2021 Responses to Commission Staff's Second Request for Information (Staff's Second Request), Christian District submitted an updated Revenue Requirement Calculation to reflect the authorized KRWFC refinancing.<sup>9</sup>

Using the DSC method, its pro forma test-year operations, and its updated Debt Service payments, Christian District determined in its updated calculations it could justify a revenue increase of \$160,316, or 4.29 percent.<sup>10</sup> The updated rates requested by Christian District would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$1.96, from \$45.81 to \$47.77, or approximately 4.28 percent.<sup>11</sup> The table below is a comparison of Christian District's original Revenue Requirement Calculation to its updated calculation.<sup>12</sup>

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<sup>8</sup> Case No. 2021-00322, *Electronic Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$895,000 for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Sep. 22, 2021).

<sup>9</sup> Christian District's Responses to Staff's Second Request, Excel Workbook: Rate\_Study\_-\_Refinancing\_of\_2012C\_\_with\_2021D.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*, Current\_and\_Proposed\_Bills\_Series\_2021D.

<sup>12</sup> Although Christian District listed Sales for Resale in its Revenue Requirement Calculations the Sales for Resale was excluded from the actual calculation.

	<u>Application</u>	<u>Updated</u>
Pro Forma Operating Expenses	\$ 3,191,741	\$ 3,191,741
Plus: Average Annual Debt Service	714,655	680,945
Debt Service Coverage Requirement	<u>142,931</u>	<u>136,189</u>
Overall Revenue Requirement	4,049,327	4,008,875
Less: Other Operating Revenue	(65,901)	(65,901)
Fire Protection Revenue	(2,641)	(2,641)
Sales for Resale	0	0
Interest Income	<u>(39,070)</u>	<u>(39,070)</u>
Revenue Required from Water Sales	3,941,715	3,901,263
Less: Normalized Revenues from Water Sales	<u>(3,740,947)</u>	<u>(3,740,947)</u>
Required Revenue Increase/(Decrease)	<u>\$ 200,768</u>	<u>\$ 160,316</u>
Percentage Increase	<u>5.37%</u>	<u>4.29%</u>

To determine the reasonableness of the rates requested by Christian District, Commission Staff performed a limited financial review of Christian District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-year operations were identified and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's findings are summarized in this report. Mark Frost reviewed Christian District's Pro Forma Operating Expenses and its Overall Revenue Requirement. Jason Green reviewed Christian District's reported revenues and rate design.

#### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff found that Christian District's required Overall Revenue Requirement is \$3,962,782. To

meet the Overall Revenue Requirement, Christian District requires a \$146,496, or 3.92 percent, revenue increase to Pro Forma present rate revenues.

2. Monthly Water Service Rates. Christian District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 4.29 percent. Christian District has not performed a cost of service study (COSS). In response to Staff's First Request, Christian District stated that it did not complete a COSS at this time as there has not been any material change in the water system to warrant a COSS.<sup>13</sup>

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Christian District and allocated the \$146,466 revenue increase across the board to Christian District's monthly retail service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$3,887,414 Revenue Required from Rates, an approximate 3.92 percent increase. These rates will increase the monthly bill of a typical residential customer using 4,000 gallons a month from \$45.81 to \$47.62, an increase of \$1.81, or approximately 3.95 percent.

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<sup>13</sup> Christian District's Responses Staff's First Request (filed Nov. 12, 2021), Item 4.

3. Nonrecurring Charges. Following the Commission’s recent decisions,<sup>14</sup> Commission Staff has reviewed Christian District’s Nonrecurring Charges. The Commission found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. In response to Staff’s First Request, Christian District provided updated cost justification information for the Nonrecurring Charges that are listed in its tariff.<sup>15</sup> Commission Staff reviewed the cost justification information provided by Christian District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Normal Hours</u>	<u>After Hours</u>
Reconnection Fee/Turn On Fee	\$13	\$47
Meter Test Fee	\$1	
Returned Check Fee	\$2	
Broken Lock Fee	\$18	

### PRO FORMA OPERATING STATEMENT

Christian District’s Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

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<sup>14</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>15</sup> Christian District’s Responses to Staff’s First Request (filed Dec. 30, 2021), Item 2, Cost\_Justifications\_NRC.pdf.

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
<b>Operating Revenues:</b>				
Total Metered Sales	\$ 3,601,759	\$ 139,189	A.	\$ 3,740,948
Fire Protection Revenue	2,641			2,641
Sales for Resale	15,288			15,288
Interdepartmental Sales	(181)			(181)
	<u>3,619,507</u>	<u>139,189</u>		<u>3,758,696</u>
<b>Other Water Revenues:</b>				
Forfeited Discounts	11,331	0		11,331
Misc. Service Revenues	9,966	(5,046)	B.	4,920
Interdepartmental Rents	2,088			2,088
	<u>23,385</u>	<u>(5,046)</u>		<u>18,339</u>
<b>Total Operating Revenues</b>	<u>3,642,892</u>	<u>134,143</u>		<u>3,777,035</u>
<b>Operating Expenses:</b>				
<b>Operation and Maintenance:</b>				
Salaries and Wages - Employees	613,563	(17,046)	C.	
		(19,485)	D.	577,032
Salaries and Wages - Officers	30,000			30,000
Employee Pensions and Benefits	355,731	(201,189)	E.	154,542
Purchased Water	1,219,214	(9,144)	F.	1,210,070
Purchased Power	84,400	(633)	F.	83,767
Purchased Power - Office Utilities	23,336	1,212	G.	24,548
Chemicals	962	(7)	F.	955
Materials and Supplies	226,548	(45,465)	D.	
		(7,319)	H.	
		(20,980)	I.	152,784
Contractual Services	42,831			42,831
Rent - Equipment	1,085			1,085
Transportation Expenses	19,531			19,531
Insurance - Vehicle	64,848			64,848
Insurance - Gen. Liab. & Workers Comp.	11,097			11,097
Insurance - Other	120,141	(39,346)	J.	80,795
Bad Debt	(26)			(26)
Miscellaneous Expenses	112,359			112,359
	<u>2,925,620</u>	<u>(359,402)</u>		<u>2,566,218</u>
Total Operation and Maintenance Expenses				
Depreciation Expense	589,269	783	H.	
		(61,483)	K.	528,569
Amortization Expense		6,993	I.	6,993
Taxes Other Than Income	57,351	(13,483)	L.	43,868
	<u>3,572,240</u>	<u>(67,190)</u>		<u>3,145,648</u>
<b>Total Operating Expenses</b>	<u>3,572,240</u>	<u>(67,190)</u>		<u>3,145,648</u>
<b>Net Utility Operating Income</b>	<u>\$ 70,652</u>	<u>\$ 201,333</u>		<u>\$ 631,387</u>

(A) Billing Analysis. Christian District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. The total

metered water sales revenue reported for the test year is \$3,601,759.<sup>16</sup> Christian District used the billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff. Subsequently, Christian District increased test-year water sales revenue by \$139,189 to reflect the revenues from water rates generated by the billing analysis. Commission Staff agrees with Christian District’s proposed revenue adjustment.

(B) Nonrecurring Charges. The adjustments to the Nonrecurring Charges result in a decrease to the charges and a decrease in miscellaneous service revenues of \$5,046 as shown below.

	Recommended NRC's	Number	Other Operating Revenues	Tariffed NRC's	Test-Year Other Operating Revenues	Pro Forma Adjustment
Reconnection Charge	\$ 13.00	284	3,692	\$ 30.00	\$ 8,520	\$ (4,828)
Reconnection Charge - After Hours	\$ 47.00	2	94	\$ 40.00	80	14
Broken Lock Fee	\$ 18.00	4	72	\$ 30.00	120	(48)
Returned Check Fee	\$ 2.00	8	16	\$ 25.00	200	(184)
Meter Relocation Fee (Actual Cost)	\$ -	1	150		150	0
Damaged Radio Read Meter (Actual Cost)						
Damaged Meter Service (Actual Cost)						
Meter Test Fee	\$ 1.00	0	0	\$ 30.00	0	0
Pro Forma Adjustment			\$ 4,024		\$ 9,070	\$ (5,046)

(C) Salaries and Wages - Employees. Christian District proposed to decrease its test-year Employee Salaries and Wages expense of \$613,563 by \$14,503 for a pro forma Employee Salaries and Wages expense of \$599,060.<sup>17</sup> Since 2020, Christian District has given its employees wage increases, but the impact of the wage increases

<sup>16</sup> Annual Report at 49, Total Metered Sales \$1,573,851.

<sup>17</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref. C.

has been offset by replacing two former employees with new employees at lower wages.<sup>18</sup> These changes result in an annual wage decrease of \$14,503.<sup>19</sup>

In reviewing Christian District's 2022 wage projections,<sup>20</sup> Commission Staff found that Christian District has only been able to hire one new full-time employee—a customer service representative. An adjustment to reflect the actual 2022 wage rates would meet the ratemaking criteria of being known and measurable.<sup>21</sup> Using Christian District's current staff level of 14 full-time employees, two part-time employees, and the 2022 employee wage rates, Commission Staff calculates a pro forma Employee Salaries and Wages expense of \$596,517, which is \$17,046, below the reported expense level. Staff's calculation is in the table below.

If Christian District has hired a second replacement employee or is in the process of filling the position, it can inform the Commission in its responses to this Staff Report. Christian District should attach to its response documentation to support the salary and the benefit costs for the new employee.

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<sup>18</sup> *Id.*, References, Ref. C.

<sup>19</sup> *Id.*

<sup>20</sup> Christian District's Responses to Commission Staff's First Request for Information (Staff's First Request) (Updated Responses filed Jan. 10, 2022), Item 12.

<sup>21</sup> See, 807 KAR 5:001, Section 16.1.(a).; Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

Emp. No.	Job Description	Hire Date	Termination Date	2020 Hours Worked		2022 Wage Rates	Pro Forma Emp. Salaries And Wages
				Regular	Overtime		
2	Operations Manager	10/29/01		2,080.00	0.00	33.15	\$ 68,952
4	Operator	10/01/12		2,080.00	343.75	19.76	51,290
7	Operator	09/19/07		2,080.00	327.25	19.08	49,052
12	Customer Service	07/03/06	04/01/21	2,080.00	20.50	0.00	0
14	Operator	04/03/09		2,080.00	704.25	19.31	60,567
17	General Manaager	07/07/97		2,080.00	0.00	39.56	82,285
21	Operator	07/01/10		972.00	0.00	15.15	14,726
22	Accountant	07/06/10		2,080.00	24.50	20.45	43,288
24	Customer Service	05/11/11		2,080.00	8.75	16.40	34,327
25	Operator	05/31/11	09/30/21	2,080.00	260.75	0.00	0
27	Operator	03/05/12		2,080.00	254.50	19.55	48,128
29	Custodian	11/26/12		597.00	0.00	13.99	8,352
35	Operator	08/29/16		2,080.00	194.25	17.70	41,973
37	Technician	08/14/17		2,050.00	90.00	14.57	31,836
39	Technician	08/28/18		2,059.00	151.75	15.63	35,741
42	Customer Service	04/26/21		2,080.00	0.00	12.50	26,000
Pro Forma Employee Salaries & Wages							596,517
Less: Reported Employee Salaries & Wages							(613,563)
Pro Forma Adjustment							\$ (17,046)
Gross Wages for Full Time Employees CERS Eligible							\$ 573,439

(D) Tap-on Fees. During the test year, Christian District collected tap-on fees of \$64,950<sup>22</sup> and correctly recorded the tap-on fees in Account No. 432, Proceeds from Capital Contributions.<sup>23</sup> Christian District explained that it reported the labor and material cost of the meter installations as an operating expense at the time the meters were installed.<sup>24</sup> Substituting the tap-on fees for the actual costs it incurred to install the meters, Christian District proposed to deduct 30 percent of the collected tap-on fees or \$19,485 from Salaries and Wages expense and the remaining 70 percent or \$45,465 from the Materials and Supplies expense.<sup>25</sup> Christian District's proposal included the depreciation of the estimated meter cost in its Depreciation expense adjustment.<sup>26</sup> Commission Staff

<sup>22</sup> Application, Attachment 4, References, Ref. H.

<sup>23</sup> Christian District's Responses to Commission Staff's First Request for Information (Supplemental Responses filed Dec. 3, 2021), Item 17, Excel Workbook: 17\_Meters\_Tap\_On\_Fees.

<sup>24</sup> Application, Attachment 4, References, Ref. H.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

finds that Christian District's adjustment meets the ratemaking criteria of being known and measurable, and Commission Staff accepts Christian District's adjustment.

(E) County Employee Retirement System (CERS). Christian District reported a test-year employee pension expense of \$355,731.<sup>27</sup> Christian District provides pension benefits and post-retirement health care benefits to its employees by participating in the CERS. As a participating member, Christian District is required to contribute a percentage of its employee wages to CERS. The CERS pension expense Christian District reported in the test year conformed to the requirements of the General Accounting Standards Board Pronouncement No. 68 (GASB 68).

Christian District explained that, due to GASB reporting requirements for retirement plan liabilities, an expense of \$171,559 associated with the CERS pension plan and an expense of \$39,673 associated with the district's other post-employment benefits (OPEB) were included in Employee Pensions and Benefits expense.<sup>28</sup> Because these reported CERS liabilities were not actual cash payments made to CERS, Christian District proposed adjustments to remove those amounts from Employee Pensions and Benefits expense.<sup>29</sup> Christian District's net decrease in wages combined with the increased CERS employer contribution resulted in an increase to Christian District's

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<sup>27</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>28</sup> *Id.*, References, Ref J.

<sup>29</sup> *Id.*

Employee Pensions and Benefits expense of \$6,122.<sup>30</sup> Christian District's net adjustment to Employee Pensions and Benefits expense is a decrease of \$205,110.<sup>31</sup>

In Case No. 2016-00163,<sup>32</sup> the Commission discussed in great detail the reporting requirements of GASB 68, and how those requirements would impact a utility's income statement and balance sheet. In that proceeding, the Commission found the annual pension expense should be equal to the amount of a district's contributions to CERS, which historically have been "fairly constant." In the fiscal year, beginning July 1, 2021, the CERS employer contribution rate increased to 26.95 percent.<sup>33</sup> Based on the above, Commission Staff determined that Christian District's pro forma CERS employer contributions are \$154,542,<sup>34</sup> resulting in a decrease to Employee Pensions and Benefits expense of \$201,189.<sup>35</sup>

(F) Excess Water Loss. Commission regulation 807 KAR 5:066, Section 6(3),<sup>36</sup> limits water loss to 15 percent for ratemaking purposes unless the Commission finds an

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<sup>30</sup> *Id.*, Ref. E.

<sup>31</sup> \$6,122 (Wage and CERS Employer Contribution Rate) - \$171,559 (Proposed CERS Adjustment) - \$39,673 (OPEB Adjustment) = \$205,110.

<sup>32</sup> Case No. 2016-00163, *Alternative Rate Adjustment filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

<sup>33</sup> <https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>

<sup>34</sup> \$573,439 (Pro Forma Employee Salaries and Wages) x 26.95% (July 1, 2020 CERS Employer Contribution Rate) = \$154,542.

<sup>35</sup> \$154,542 (Pro Forma CERS Contribution) - \$355,731 (Test-Year CERS Contribution) = (\$201,189).

<sup>36</sup> "Unaccounted-for water loss. Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for ratemaking purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level

alternative level reasonable. Christian District reported a test-year water loss of 15.75 percent, or 0.75 percentage points above the 15 percent allowable limit.<sup>37</sup> To eliminate the cost to purchase, produce, and pump water over the 15 percent allowable limit, Christian District proposed to decrease Purchased Water expense and Purchased Power expense by \$9,092, and \$629 respectively.<sup>38</sup> Commission Staff finds that Christian District’s proposal to eliminate the costs associated with excessive water loss conforms to the Commission’s current practice. However, Commission Staff’s calculations result in decreases to Purchased Water expense, Purchased Power expense and Chemical expense of \$9,144, \$633, and \$7, respectively.<sup>39</sup>

(G) Monthly Telephone. Christian District proposed to increase its test year Fuel for Power Production/Office Utilities expense of \$23,336 by \$1,212 for a pro forma expense level of \$24,548.<sup>40</sup> Christian District explained that the cost of its telephone service had increased by \$101 per month or \$1,212 on an annual basis.<sup>41</sup> In reviewing the supporting documentation submitted by Christian District to support its proposed adjustment, Commission Staff finds that the proposed adjustment meets the ratemaking

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shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.”

<sup>37</sup> 2020 Annual Report at 72.

<sup>38</sup> Application, Attachment 4, Schedule of Adjusted Operations Ref. I and References, Ref. I.

<sup>39</sup>

	Purchased Water	Purchased Power	Chemicals	Total
Allowable Purchases	\$ 1,219,214	\$ 84,400	\$ 962	\$ 1,304,576
Multiplied by: Water Rate per 1,000 Gallons	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>
Pro Forma Purchased Water Expense	<u>\$ (9,144)</u>	<u>\$ (633)</u>	<u>\$ (7)</u>	<u>\$ (9,784)</u>

<sup>40</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref. K.

<sup>41</sup> *Id.*, References, Ref. K.

criteria of being known and measurable and, therefore, Commission Staff accepts Christian District's adjustment.

(H) Materials and Supplies – Capital Expenditures. Christian District reported test-year materials and supplies expense of \$226,548.<sup>42</sup> In its review of the 2020 general ledger<sup>43</sup> and the test-year invoices, Commission Staff discovered that Christian District had expensed the cost of a chlorinator of \$1,412, a new radio read receiver for a truck of \$1,516, and a new pick-up truck bed of \$4,391. The identified expenditures are considered capital costs that should not be recorded as an expense in the year incurred, but rather depreciated over their estimated useful lives. Commission Staff is reducing test-year materials and supplies expense by \$7,319 to remove the capital expenditures.

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). According to the NARUC Study, the depreciation lives for the chlorinator, radio read receiver, and truck bed are 35 years, 12.5 years, and 7 years, respectively. Commission Staff is increasing depreciation expense by \$783 as calculated in the table below.

Property Description	Capital Expenditures	NARUC Depreciation Lives			Depreciation Capital Items
		Floor	Celling	Mid-Point	
Chlorinator	1,412	30.0	50.0	40.0	\$ 35
Power Operated Equip.	1,516	40.0	50.0	12.5	121
Transportation	4,391	7.0	7.0	7.0	627
Depreciations - Capital Expenditures	<u>\$ 7,319</u>				<u>\$ 783</u>

<sup>42</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>43</sup> Christian District's Responses to Staff's First Request (filed Nov. 12, 2021), Item 5, 2020 General Ledger.

(I) Materials and Supplies – Nonrecurring Expenditures. Upon further review of the 2020 general ledger<sup>44</sup> and the test-year invoices, Commission Staff discovered that Christian District had expensed the cost to repair a trencher of \$20,980. For ratemaking purposes, costs that are classified as nonrecurring are removed from a utility's operating expenses and are amortized over their estimated useful life. Commission Staff is reducing Materials and Supplies expense by \$20,980 to eliminate the trencher repair costs that would be classified as nonrecurring for ratemaking purposes. Operating expenses are being increased by \$6,993<sup>45</sup> to reflect amortizing the trencher repair costs over three years.

(J) Employee Benefits. Christian District proposed to decrease its test year Other Insurance expense (Employee Benefits) expense of \$120,421 by \$21,808 for a pro forma expense level of \$98,333.<sup>46</sup> Christian District currently pays 100 percent of the monthly premiums for single health coverage, vision, dental, and life insurance for its eligible full-time employees.<sup>47</sup> Christian District explained that the Commission currently places the following employer contribution limitations on employee insurance benefits: a 79 percent limit single employee health insurance coverage, a 66 percent on family coverage, and a 60 percent limitation dental coverage.<sup>48</sup> Applying those percentages to

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<sup>44</sup> *Id.*

<sup>45</sup> \$20,980 (Trencher Repair Costs) ÷ 3 (Years) = \$6,993.

<sup>46</sup> Application, Attachment 4, Schedule of Adjusted Operations Ref. F

<sup>47</sup> *Id.*, References, Ref. F.

<sup>48</sup> *Id.*

the current employee insurance premiums is the basis of Christian District's proposed adjustment.<sup>49</sup>

Commission Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by some utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits. The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. It has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.

Consistent with past precedent, in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage; Commission Staff reduced Christian District's single health insurance premiums by 22 percent for individual health insurance, 34 percent for family/parent plus insurance,<sup>50</sup> and by 60 percent dental insurance, the national average employee contribution rate.<sup>51</sup> Factoring in the preceding, Commission Staff decreased employee pensions and benefits by \$39,346, as shown in the calculation below.

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<sup>49</sup> *Id.*

<sup>50</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>)

<sup>51</sup> The Willis Benchmarking Survey, 2015, at 62–63. ([https://www.willis.com/Documents/publications/Services/Employee\\_Benefits/20151230\\_2015WillisBenefitsBenchmarkingSurveyReport.pdf](https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf)).

Description	Pro Forma Employee Ins. Exp.	Avg. Emp. Contribution Rate	Premium Adjustment	Adjusted Employee Ins. Exp.
Health Insurance - Single	\$ 79,902	22%	\$ (17,579)	\$ 62,323
Health Insurance - Family & Parent Plus	20,791	34%	(7,069)	13,722
Dental Insurance	3,919	60%	(2,351)	1,568
Vision	1,161			1,161
Life Insurance	1,865			1,865
AD&D	156			156
			<u>\$ (26,999)</u>	<u>\$ 80,795</u>
Pro Forms Employee Insurance Premiums				\$ 80,795
Less: Test-Year Employee Insurance Premiums - 2020 TB Employee Benefits				<u>(120,141)</u>
Pro Forma Adjustment				<u>\$ (39,346)</u>

(K) Depreciation. Christian District proposed to decrease its test year Depreciation expense of \$589,269 by \$61,483 for a pro forma Depreciation expense of \$527,786.<sup>52</sup> Christian District explained that the Commission typically requires a water utility to adjust its depreciation expense when its depreciation lives fall outside of the ranges recommended in the NARUC Study.<sup>53</sup> According to Christian District, its adjustment brings the depreciable lives of its assets to or near the midpoint of NARUC's recommended ranges.<sup>54</sup>

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is inside or outside the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study ranges to depreciate a utility plant.

Upon its review of Christian District's depreciation schedule, Commission Staff determined that Christian District's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. Commission Staff finds Christian District's

<sup>52</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref. G.

<sup>53</sup> *Id.*, References, Ref. G.

<sup>54</sup> *Id.*

depreciation adjustment to be reasonable and has decreased Depreciation expense by \$61,483.

(L) Payroll Taxes. Christian District proposed to decrease its test year Payroll Tax expense of \$57,531 by \$4,136 to a pro forma level of \$53,215 to reflect its Pro Forma Salaries and Wages changes.<sup>55</sup> Using the pro forma Employee Salaries and Wages expense of \$573,439 and the current FICA rate of 7.65 percent, Commission Staff calculated a pro forma FICA expense of \$43,868.<sup>56</sup> Accordingly, Commission Staff decreased Christian District's payroll tax expense by \$13,483.<sup>57</sup>

#### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

Historically, the Commission has applied a DSC method to calculate the revenue requirement of water districts and water associations.<sup>58</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2) depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

A comparison of Christian District's and Commission Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:<sup>59</sup>

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<sup>55</sup> Application, Attachment 4, Schedule of Adjusted Operations, Ref D.

<sup>56</sup> \$573,439 (Pro Forma Employee Salaries and Wages expense) x 7.65% (FICA Rate) = \$43,868.

<sup>57</sup> \$43,868 (Pro Forma Payroll Tax) - \$57,351 (Reported Test-Year Payroll Tax) = \$13,483.

<sup>58</sup> See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); see also Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

<sup>59</sup> Although Christian District listed Sales for Resale in its Revenue Requirement Calculations the Sales for Resale was excluded from the actual calculation.

	Updated Christian District	Commission Staff
Pro Forma Operating Expenses	\$ 3,191,741	\$ 3,145,648
Plus: Average Annual Debt Service	680,945	680,945
Debt Service Coverage Requirement	<u>136,189</u>	<u>136,189</u>
Overall Revenue Requirement	4,008,875	3,962,782
Less: Other Operating Revenue	(65,901)	(18,339)
Fire Protection Revenue	(2,641)	(2,641)
Sales for Resale		(15,288)
Interest Income	<u>(39,070)</u>	<u>(39,070)</u>
Revenue Required from Water Sales	3,901,263	3,887,444
Less: Normalized Revenues from Water Sales	<u>(3,740,947)</u>	<u>(3,740,948)</u>
Required Revenue Increase/(Decrease)	<u>\$ 160,316</u>	<u>\$ 146,496</u>
Percentage Increase	<u>4.29%</u>	<u>3.92%</u>

#### Average Annual Principal and Interest Payments.

At the time of Commission Staff's review, Christian District had four outstanding loans from the Kentucky Rural Water Finance Corporation (KRWFC)<sup>60</sup> and two bond issuances from the U.S. Department of Agriculture's Rural Development (RD).<sup>61</sup> In calculating its revenue requirement, Christian District used an average annual debt

<sup>60</sup> See KRWFC Series 2013 B - Case No. 2012-00068, *Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$3,030,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC April 13, 2012); KRWFC Series 2016B – Case No. 2016-00138, *Application of Christian County Water District to Issue Securities in the Approximate Principal Amount of \$2,315,000 for the Purpose of Reamortizing a Certain Outstanding Loan of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC April 16, 2016); and KRWFC Series 2020G – Case No. 2020-00239, *Electronic Application of the Christian County Water District to Issue Securities in the Approximate Principal Amount of \$1,634,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Sep. 20, 2020).

<sup>61</sup> RD Loan, Phase VI 2004, Case No. 2003-00469, *Application of Christian County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Dec. 29, 2003); and RD Bonds, Series 2018 Phase VIII, *Application of Christian County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC June 14, 2017).

service of \$714,655 and a 0.2 DSC of \$142,931.<sup>63</sup> Upon its review of Christian District's updated debt amortization schedules, Commission Staff verified that Christian District's calculations are correct.

Signatures

/s/ Mark Frost  
Prepared by: Mark Frost  
Revenue Requirements Branch  
Division of Financial Analysis

/s/ Jason Green  
Prepared by: Jason Green  
Rate Design Branch  
Division of Financial Analysis

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<sup>63</sup> Christian District's Responses to Staff's Second Request, Excel Workbook: Rate\_Study\_-\_Refinancing\_of\_2012C\_\_with\_2021D.

APPENDIX

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00369 DATED JAN 26 2022

The following rates and charges are prescribed for the customers in the area served by Christian County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- X 3/4-Inch Meter

First	0 gallons	\$ 20.42	Minimum Bill
Over	0 gallons	0.00680	per gallon

1-Inch Meter

First	5,000 gallons	\$ 54.71	Minimum Bill
Over	5,000 gallons	0.00680	per gallon

1 1/2-Inch Meter

First	10,000 gallons	\$ 88.70	Minimum Bill
Over	10,000 gallons	0.00680	per gallon

2-Inch Meter

First	50,000 gallons	\$ 360.55	Minimum Bill
Over	50,000 gallons	0.00680	per gallon

4-Inch Meter

First	100,000 gallons	\$ 700.37	Minimum Bill
Over	100,000 gallons	0.00680	per gallon

Nonrecurring Charges

Reconnection Fee/Turn On Fee	\$13.00
Reconnection Fee/Turn On Fee (After Hours)	\$47.00
Meter Test Fee	\$ 1.00
Returned Check Fee	\$ 2.00
Broken Lock Fee	\$18.00

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